

FILED

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ALABAMA 03 OCT 29 PM 4:35  
SOUTHERN DIVISION

U.S. DISTRICT COURT  
N.D. OF ALABAMA

UNITED STATES OF AMERICA,

v.

RICHARD M. SCRUSHY,  
Defendant.

)  
) Case No. CR-03-BE-0530-S  
)  
) Violations:  
) 18 U.S.C. § 371 Conspiracy;  
) 18 U.S.C. § 1341 Mail Fraud;  
) 18 U.S.C. § 1343 Wire Fraud;  
) 18 U.S.C. § 1348 Securities Fraud;  
) 18 U.S.C. § 1001 False Statements;  
) 18 U.S.C. §§ 1350, 1349 False  
) Certification & False Certification  
) Attempt;  
) 18 U.S.C. § 1957 Money Laundering;  
) 18 U.S.C. §§ 981 and 982 Forfeiture;  
) 18 U.S.C. § 2 Aiding & Abetting;  
) 15 U.S.C. §§ 78j(b) and 78ff; 17 C.F.R.  
) § 240.10b-5 Securities Fraud

INDICTMENT

THE GRAND JURY CHARGES:

COUNT 1

Conspiracy

Title 18, United States Code, Section 371

At all times material to this Indictment:

INTRODUCTION

1. HealthSouth Corporation (hereinafter "HealthSouth") was engaged in the business of providing various healthcare services to the public. HealthSouth was organized as a corporation under the laws of the State of Delaware in 1984, and headquartered in Birmingham, Alabama. It was founded by defendant RICHARD M. SCRUSHY and four other persons. By 2002, HealthSouth had grown to what defendant RICHARD M. SCRUSHY described as the

nation's largest provider of outpatient surgery, diagnostic imaging, and rehabilitative healthcare services, with approximately 1,800 locations in all 50 states, Puerto Rico, the United Kingdom, Australia, and Canada.

2. From 1984 through early 2003, defendant **RICHARD M. SCRUSHY** was Chairman of the Board of Directors for HealthSouth. He was also the Chief Executive Officer (CEO) for all but a short time in late 2002 and early January, 2003, when a co-conspirator and aider and abetter was Chief Executive Officer. As CEO, **RICHARD M. SCRUSHY** was the highest ranking corporate officer responsible for the overall management of the company, and he owed a fiduciary duty to render honest services to HealthSouth, its shareholders, and its Board of Directors.

3. From 1996 through March 2003, defendant **RICHARD M. SCRUSHY** directly and indirectly controlled HealthSouth through his control over a small group of senior officers, including all of the corporate President and Chief Operating Officers, the Chief Financial Officers (CFOs), Controllers, and certain other officers, who, along with some members of the corporate accounting staff were co-conspirators and aiders and abettors. Defendant **RICHARD M. SCRUSHY** and these individuals received salaries, bonuses, stock options, and other benefits some of which were tied, directly and indirectly, to the financial performance of HealthSouth.

#### **Compensation of the Defendant**

4. From 1996 through 2002, defendant **RICHARD M. SCRUSHY** received approximately \$267 million in compensation from HealthSouth, including more than \$7.5 million in base salary, more than \$53 million in bonuses, and stock options valued at more than \$206 million when exercised. Additionally, defendant **RICHARD M. SCRUSHY** received valuable benefits including company loans, and the use of automobiles, aircraft, and other HealthSouth assets. Defendant **RICHARD M. SCRUSHY** also caused HealthSouth to invest in, and do business with, other companies and ventures in which he had a personal interest, including entertainment ventures such as singing groups.

5. The stock options that defendant **RICHARD M. SCRUSHY** received allowed him to purchase shares directly from the company at a pre-set price or "strike price." If the market price of HealthSouth's stock increased above the strike price, defendant **RICHARD M.**

SCRUSHY could "exercise" the options to purchase the stock, and then immediately sell the stock at a profit.

#### **HealthSouth's Sale of Securities**

6. To expand its operations, HealthSouth raised millions of dollars in a variety of ways, including issuing and selling shares of stock which became available for trading on various public markets, selling bonds, and borrowing money from banks. Stocks and bonds are known as "securities."

7. HealthSouth used the funds that it raised, in part, to acquire other healthcare providers, to expand into new markets, to pay operating expenses, and to pay down debt.

8. Thousands of individuals from all over the United States and many institutions, mutual funds, insurance companies and retirement systems, including the Retirement System of Alabama, purchased HealthSouth's securities.

#### **Regulation of the Sale of Securities**

9. The United States Securities and Exchange Commission (the SEC), headquartered in Washington, D.C., was an agency responsible for enforcing federal securities laws. SEC regulations protected members of the investing public by, among other things, requiring that a company's financial information was accurately recorded and disclosed to the public.

10. In order to sell securities to the public and to permit public trading of its securities, HealthSouth was required to "register" its securities with the SEC. HealthSouth was also required to comply with certain laws and SEC regulations designed to ensure that a company's financial information was accurately recorded and fairly disclosed to the investing public. HealthSouth was further required to make and keep books, records, and accounts that accurately and fairly reflected its income, expenses and assets, and to devise and maintain a system of internal accounting controls which would reasonably assure that these objectives were satisfied.

11. HealthSouth was required to and did file various periodic reports and other documents with the SEC, which included representations concerning its revenues, net income and losses, earnings, the value of its assets and the amount of its liabilities. These documents included:

- a. Forms S-3, S-4, and S-8 registration statements filed in connection with the registration of HealthSouth's stocks and bonds;
- b. Forms 8-K detailing material events;
- c. Forms 10-Q, which included the quarterly report of its financial condition and the results of its operations; and
- d. Forms 10-K, which included the annual report of its financial condition and the results of its operations.

12. HealthSouth filed its Forms 10-K, 10-Q, 8-K, S-3, S-4, and S-8 with the SEC in Washington, D.C. These documents were available for public review.

13. Beginning on or about July 30, 2002, a law, commonly referred to as the Sarbanes-Oxley Act, required, among other things, that each Form 10-K and 10-Q filed periodically with the SEC be accompanied by a written certification ("1350 certification") by the CEO and the CFO stating that information contained in the periodic reports fairly presented, in all material respects, the financial condition and results of operations of the issuer.

#### **Accounting Principles and Practices**

14. Financial statements produced by HealthSouth included both an Income Statement and a Balance Sheet.

An Income Statement reported, among other things, the company's revenue and expenses incurred during a stated period of time, i.e., usually a three-month period or quarter, or a twelve-month period or year. A company's earnings per share (EPS) is generally calculated by dividing its net income by the number of its outstanding shares of stock.

A Balance Sheet reported, among other things, the value of the company's assets and amount of its liabilities at the end of a reporting period, i.e., usually the last day of a quarter or the last day of a year.

15. As is customary in the healthcare industry, HealthSouth billed "third party payors," such as insurance companies, Medicare, and Medicaid, for healthcare services at amounts greater than it expected to collect. The total amount billed was entered into gross revenue accounts. The



financial information, particularly its revenue, expenses, and net income and losses. These reports were delivered to, and reviewed by, defendant **RICHARD M. SCRUSHY** and other senior officers. Various components of HealthSouth also generated weekly revenue reports which were provided to defendant **RICHARD M. SCRUSHY**, and other senior officers, on a weekly basis. Defendant **RICHARD M. SCRUSHY** often referred to these reports during the Monday morning meetings he conducted with corporate officers.

20. During the period between 1996 and 2003, these internal reports showed that HealthSouth often failed to produce sufficient net income to meet its quarterly and annual "guidance," the consensus of Wall Street, or market expectations, and HealthSouth's internal budgets. Defendant **RICHARD M. SCRUSHY** and other senior officers of HealthSouth would refer to such failure as "not making the numbers," and they believed that revealing the company's actual performance and shortfalls to the investing public and analysts would adversely effect the market price of HealthSouth's stock.

#### **The Conspiracy**

21. From in or about 1996, the exact date being unknown to the Grand Jury, to on or about March 19, 2003, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

#### **RICHARD M. SCRUSHY**

knowingly and willfully conspired with other persons, known and unknown to the Grand Jury, to commit offenses against the United States, that is to:

(a) devise and intend to devise a scheme and artifice to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations and promises, and to execute and attempt to execute the scheme and artifice by placing and causing to be placed in a post office and an authorized depository for mail matter to be sent and to be delivered by the United States Postal Service, and to deposit and cause to be deposited matter to be sent and delivered by a private and commercial interstate carrier, in violation of Title 18, United States Code, Sections 1341, 1346 and 2;

(b) devise and intend to devise a scheme and artifice to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations and promises, and to execute the scheme and artifice by transmitting and causing to be transmitted by means of wire communication in

interstate and foreign commerce, writings, signs, signals, pictures and sounds, in violation of Title 18, United States Code, Sections 1343, 1346 and 2;

(c) knowingly execute and attempt to execute a scheme and artifice to defraud and to obtain, by means of materially false and fraudulent pretenses, representations and promises, money, funds and credits owned by and under the custody and control of federally insured financial institutions, in violation of Title 18, United States Code, Sections 1344 and 2;

(d) knowingly and willfully make and cause to be made materially false, fictitious and fraudulent representations in a matter within the jurisdiction of the executive branch of the Government of the United States, in violation of Title 18, United States Code, Sections 1001 and 2;

(e) willfully certify and cause to be certified a statement required to be filed by Title 18, United States Code, Section 1350, with the SEC, knowing that the periodic report accompanying the statement did not comport with all the requirements set forth in that section, and attempt to do so, in violation of Title 18, United States Code, Sections 1349, 1350 and 2;

(f) knowingly execute and attempt to execute a scheme and artifice to defraud in connection with securities of HealthSouth, an issuer with a class of securities registered under Section 12 of the Securities Exchange Act of 1934 and required to file reports under Section 15(d) of said Act, in violation of Title 18, United States Code, Sections 1348 and 2;

(g) willfully and knowingly make and cause to be made false and misleading statements of material fact in applications, reports and documents required to be filed under the Securities and Exchange Act of 1934 and the rules and regulations thereunder in violation of Title 15, United States Code, Sections 78m(a) and 78ff; Title 17, Code of Federal Regulations, Sections 240.13a-1, 13a-13 and 13b2-2; and Title 18, United States Code, Section 2;

(h) willfully and knowingly falsify books, records and accounts of HealthSouth in violation of Title 15, United States Code, Sections 78m(b)(2)(A) & (B), 78m(b)(5) and 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-1; and Title 18; United States Code, Section 2;

(i) willfully and knowingly make and cause to be made false and misleading statements to accountants and to omit to state, and cause others to omit to state, material facts necessary in order to make the statements made, in light of the circumstances under which the statements were made, not misleading to an accountant in connection with an audit of HealthSouth's financial statements in

violation of Title 15, United States Code, Section 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2; and Title 18, United States Code, Section 2;

(j) willfully, directly and indirectly, by use of the means and instrumentalities of interstate commerce, the mails, and the facilities of national securities exchanges, use and employ manipulative and deceptive devices and contrivances, in violation of Title 15, United States Code, Sections 78j(b) and 78ff; Title 17, Code of Federal Regulations, Section 240.10b-5; and Title 18, United States Code, Section 2;

#### Purpose Of The Conspiracy

22. A purpose of the conspiracy was to unjustly enrich and benefit defendant **RICHARD M. SCRUSHY** and others by fraudulently inflating the results of operations and the financial condition that HealthSouth reported to others.

#### Manner and Means of the Conspiracy

23. It was part of the conspiracy that defendant **RICHARD M. SCRUSHY** and other co-conspirator HealthSouth officers and employees would and did participate in a scheme to fraudulently inflate the company's operating results and financial condition, including the net income and earnings per share that HealthSouth reported to its Board of Directors, employees, the SEC, bond underwriters, market analysts, bankers, the media, and the investing public.

24. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** and other co-conspirators would and did cause false and fraudulent entries to be made to HealthSouth's books and records, which added approximately \$2.7 billion in fictitious income to the books and records during the course of the conspiracy.

25. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** and other co-conspirators would and did fraudulently induce HealthSouth to pay salaries, bonuses, and stock options, and otherwise confer benefits upon themselves as a result of the fraudulently inflated results.

26. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** and other co-conspirators would and did fraudulently inflate HealthSouth's financial results in order to increase HealthSouth's stock price and thereby increase the value of their own HealthSouth stock and options.



27. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** and other co-conspirators would and did cause HealthSouth to issue fraudulently inflated financial reports to induce stock and bond investors, bank lenders and businesses to invest in HealthSouth's securities and to provide funds and other assets to HealthSouth.

28. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** and other co-conspirators would and did meet and discuss HealthSouth's actual financial performance, the actual results of its operations, and the need to falsify those results before they were publicly reported.

29. It was further part of the conspiracy that after reviewing reports which showed that HealthSouth's actual financial results had failed to meet quarterly and annual income "guidance" and the consensus of Wall Street analyst expectations, defendant **RICHARD M. SCRUSHY** would and did cause co-conspirator senior officers to fraudulently inflate HealthSouth's reported income, operating results and financial condition.

30. It was further part of the conspiracy that one or more co-conspirator senior officers would and did convey defendant **RICHARD M. SCRUSHY**'s orders to members of the corporate accounting staff and discuss with them specific methods for falsifying HealthSouth's books, records and financial reports in order to fraudulently inflate its operating results and financial condition.

31. It was further part of the conspiracy that the defendant **RICHARD M. SCRUSHY** and other co-conspirators, including members of the corporate accounting staff, would and did make and cause to be made, false entries to income statement accounts, including the contractual adjustment accounts, without supporting documentation, in HealthSouth's books and records for the purpose of artificially and materially inflating net income and earnings per share on the publicly reported Income Statements. Certain co-conspirators would and did refer to the false entries as "filling the hole" or "filling the gap."

32. It was further part of the conspiracy that once false entries were made to various accounts to increase income, one or more co-conspirators, including members of the corporate accounting staff, in order to "balance" the books, would and did make and cause to be made, corresponding false entries to balance sheet accounts in HealthSouth's books and records,

including (a) Property, Plant and Equipment ("PP&E") accounts; (b) cash accounts; (c) inventory accounts; (d) accounts receivable; (e) intangible asset (goodwill) accounts, (f) suspense accounts; and (g) the investment portfolio.

33. It was further part of the conspiracy that the defendant **RICHARD M. SCRUSHY** and other co-conspirators would and did publicize and disseminate the fraudulently inflated financial information.

34. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** and certain co-conspirators would and did sign, and caused to be filed with the SEC in Washington, D.C., Forms 10-Q, 10-K, 8-K, and other documents which contained materially false and fraudulent information about HealthSouth's income, operating results, financial condition, and earnings per share.

35. It was further part of the conspiracy that in order to avoid detection and exposure, the co-conspirators would and did make few if any fraudulent entries to accounts associated with facilities located in certain states, where state regulators required separate audits for certain facilities, and to certain accounts associated with facilities operated in partnership with physicians.

36. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** and co-conspirators would and did cover up, conceal, and keep secret the fraud, by: (a) controlling and limiting access to HealthSouth's financial information; (b) controlling the internal distribution of financial results; (c) providing fraudulent documentation and false information to its auditors; (d) providing false information to Federal and State taxing authorities; and (e) fraudulently using the acquisition of other companies to conceal fraudulent assets on HealthSouth's books and in its reports.

37. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** would and did seek to control his co-conspirators, HealthSouth employees and the Board of Directors by: (a) threats; (b) intimidation; (c) taking various steps to monitor the activities of said persons, including obtaining and reading their e-mails, placing them under surveillance, and installing equipment that permitted him to eavesdrop on electronic and telephonic

communications; (d) obtaining large compensation packages for co-conspirators; and (e) recommending the forgiveness of HealthSouth loans to co-conspirators.

38. It was further part of the conspiracy that defendant **RICHARD M. SCRUSHY** would and did cause co-conspirator senior officers to continue to sign and file false certifications and periodic reports by: (a) offering them financial and other inducements; (b) appealing to their loyalty to defendant **RICHARD M. SCRUSHY**, to HealthSouth and to its employees; (c) reminding them that they had already committed illegal acts; (d) stating that the company was making money and had a bright future; (e) suggesting that the falsity in the reports could be reduced over time; (f) suggesting that there was a "plan" to take care of the fraud; (g) suggesting that they could get away with it; (h) reminding them of the adverse consequences they and others might suffer if they abandoned the scheme; (i) reminding them of the benefits that would accrue if they continued the scheme; and (j) suggesting that continuing with the scheme was the "right" thing to do.

#### Overt Acts

In furtherance of the conspiracy and to achieve the objects thereof, the conspirators committed and caused to be committed the following acts, among others, in the Northern District of Alabama and elsewhere:

39. From in or about 1996 to on or about March 19, 2003, defendant **RICHARD M. SCRUSHY** and others reviewed internal financial statements setting forth the actual financial condition and results of operations at HealthSouth.

40. From in or about 1996 to on or about March 19, 2003, defendant **RICHARD M. SCRUSHY** and co-conspirator senior officers periodically discussed the falsification of HealthSouth's financial statements.

41. Co-conspirators, including members of the corporate accounting staff, made and caused to be made entries in the books and records of HealthSouth, which caused the following approximate amounts of fictitious income to be included in the annual reports to stockholders and SEC filings for the years 1996 through 2001, and intended to be included in the annual

reports to stockholders and SEC filings for the year 2002, the total amount for each year being a separate overt act:

| <u>Year</u> | <u>Amount of Fictitious Income</u> |
|-------------|------------------------------------|
| 1996        | \$ 70 million                      |
| 1997        | \$ 700 million                     |
| 1998        | \$ 550 million                     |
| 1999        | \$ 390 million                     |
| 2000        | \$ 350 million                     |
| 2001        | \$ 450 million                     |
| <u>2002</u> | <u>\$ 230 million</u>              |
| Total       | \$ 2.740 billion                   |

42. Co-conspirator corporate accounting staff members added and caused to be added fictitious assets to the books and records of HealthSouth which by December 21, 2002, totaled approximately \$2.7 billion and included the following amounts, each inclusion being a separate overt act:

- (a) Approximately \$370 million in cash;
- (b) Approximately \$27 million in the stock of a publicly traded company;
- (c) Approximately \$13 million investment in an assisted living facility;
- (d) More than \$1 billion of fictitious assets classified as "AP SUMMARY"; and
- (e) More than \$740 million in goodwill.

43. Co-conspirator corporate accounting staff members misclassified assets, including aircraft and medical equipment, for the purpose of fraudulently inflating HealthSouth's balance sheet.

44. On or about each date set forth below, defendant **RICHARD M. SCRUSHY** signed a letter addressed to HealthSouth's outside auditors in which he represented in substance that he recognized that obtaining representations from management was a significant step for auditors to form an opinion as to whether the consolidated financial statements presented fairly in all material respects the financial position and results of operations of HealthSouth and in which he falsely represented that there were no material transactions that had not been properly recorded in the accounting records underlying the consolidated financial statements, each representation letter signing being a separate overt act:

DATE

- a. February 24, 1997
- b. March 25, 1997
- c. August 21, 1997
- d. August 29, 1997
- e. September 18, 1997
- f. February 25, 1998
- g. March 26, 1999
- h. March 28, 2000
- i. November 14, 2000
- j. March 23, 2001
- k. March 20, 2002
- l. May 10, 2002
- m. August 13, 2002

45. In or about May, August, and November of each year from 1996 through 2001, and in or about May and August of 2002, defendant **RICHARD M. SCRUSHY** signed a Form 10-Q and caused it to be filed with the SEC. each signing and each filing constituting a separate overt act.

46. In or about March of each year from 1996 through 2002, defendant **RICHARD M. SCRUSHY** signed a Form 10-K and caused it to be filed with the SEC, each signing and each filing constituting a separate overt act.

47. On or about November 14, 2002, co-conspirators signed HealthSouth's Form 10-Q for the third quarter of 2002 and caused it to be filed with the SEC.

48. In or about April 1997, defendant **RICHARD M. SCRUSHY** falsely represented in the HealthSouth 1996 Annual Report sent to stockholders that:

"Fully diluted income per share, excluding non-recurring expenses related to acquisitions, showed continued strong growth as we posted \$0.75 per share for the year, a 38% increase over 1995."

49. In or about April 1998, defendant **RICHARD M. SCRUSHY** falsely represented in the HealthSouth 1997 Annual Report sent to stockholders that:

"This year, we extended our record to 46 quarters of meeting market expectations, with a revenue increase of 17% over 1996."

50. In or about April 1999, defendant **RICHARD M. SCRUSHY** falsely represented in the HealthSouth 1998 Annual Report sent to stockholders that:

"For the year, we completed 50 quarters of meeting market expectations, with revenue increasing 28% over 1997. Income excluding one-time expenses grew by 34%, while corresponding income per share increased by 18%."

51. In or about April 2000, co-conspirators caused HealthSouth to send to stockholders the 1999 Annual Report falsely reporting that earnings per share for the year exceeded \$0.85, excluding effects of one-time expenses.

52. In or about April 2001, defendant **RICHARD M. SCRUSHY** falsely asserted in the HealthSouth 2000 Annual Report sent to stockholders that:

"In 2000, our stock rose to promising heights, closing up 203 percent for the year and earning HealthSouth recognition as a top-five performer in the S&P 500. We also fulfilled Wall Street expectations for another year, maintaining our position as the *Fortune 500* company with the second-longest streak for meeting or exceeding analysts' expectations."

53. In or about April 2002, defendant **RICHARD M. SCRUSHY** falsely represented in the HealthSouth 2001 Annual Report sent to stockholders that:

“In 2001, we set new records as we pushed our revenues well over \$4.3 billion and celebrated another year of fulfilling Wall Street expectations, maintaining our record as the second-longest streak for meeting or exceeding analysts’ expectations.”

54. On or about February 27, 1997, HealthSouth issued a press release in which defendant **RICHARD M. SCRUSHY** falsely represented that HealthSouth had its tenth consecutive year of meeting or exceeding analyst expectations.

55. On or about October 30, 1997, HealthSouth issued a press release in which defendant **RICHARD M. SCRUSHY** falsely represented that HealthSouth had achieved record profitability.

56. On or about November 3, 1997, HealthSouth issued a press release in which defendant **RICHARD M. SCRUSHY** falsely represented that HealthSouth had its 45<sup>th</sup> consecutive quarter of meeting or exceeding analysts’ expectations.

57. On or about September 30, 1998, HealthSouth issued a press release in which defendant **RICHARD M. SCRUSHY** falsely represented that HealthSouth’s balance sheet was among the strongest in the industry.

58. On or about March 7, 2000, HealthSouth issued a press release in which defendant **RICHARD M. SCRUSHY** falsely represented that HealthSouth continued to maintain earnings before interest, taxes, depreciation and amortization (EBITDA) margins well in excess of competitors.

59. In or about April 2002, HealthSouth’s 2001 Annual Report was mailed to approximately 7,000 stockholders.

60. On or about July 11, 2002, HealthSouth issued a press release reporting that it was comfortable with consensus Wall Street estimates for the remainder of the year, and had strong operating results through the first half of the year.

61. On or about July 8, 2002, upon being told that a government agency communication regarding reimbursements for Medicare patients might reduce income,

defendant **RICHARD M. SCRUSHY** told other co-conspirators that they could not reduce earnings projections.

62. In or about the summer of 1999, defendant **RICHARD M. SCRUSHY** reviewed a binder containing financial data which compared HealthSouth's true pre-tax income and EPS to HealthSouth's reported and projected pre-tax income and EPS and which demonstrated that HealthSouth's true pre-tax income and EPS was less than what HealthSouth had previously reported and was about to report. Afterwards, defendant **RICHARD M. SCRUSHY** confronted the officer who had prepared the binder and told the officer that he could not tell defendant **SCRUSHY** how to run the company.

63. In or about March 1999, defendant **RICHARD M. SCRUSHY** appeared in a HealthSouth Corporate Show videotape which was distributed to employees, and touted the company's balance sheet and cash flow, and encouraged employees to buy HealthSouth stock.

64. In or about June 2000, defendant **RICHARD M. SCRUSHY** appeared in a HealthSouth State of the Company videotape which was distributed to employees, and stated that "we have remained committed to prudent fiscal policy and the integrity of our balance sheet," and touted that HealthSouth had an "outstanding balance sheet."

65. In or about October, 2000, defendant **RICHARD M. SCRUSHY** appeared on "Moneycast" in a televised interview and stated that HealthSouth had a "good strong balance sheet" and had "plenty of available cash."

66. In or about early 2003, defendant **RICHARD M. SCRUSHY** appeared at a HealthSouth 2003 managers meeting and told the company's employees that HealthSouth did not have the same type of problems as WorldCom and Tyco.

67. In or about August 2002, after some co-conspirator corporate accounting staff members had advised their supervisors that they would no longer make false entries, and after one of the senior officers who was required to sign the Form 10-Q to be filed that month balked at signing the report because it contained materially false information, defendant **RICHARD M. SCRUSHY** agreed to, and helped devise a plan to:

- (a) Cease making phony entries to inflate net income;



- (b) Publicly blame the resulting reduction in reported net income on the purported effect of an announcement by the government concerning Medicare reimbursements;
- (c) Maintain the more than \$1 billion in previously reported phony assets on the reported Balance Sheets, and look for ways to reduce this inflation over time without provoking undue attention;
- (d) Solicit potential buyers to conduct a leveraged buy-out of HealthSouth, or parts of HealthSouth, whereby the company or certain parts would be privately owned, therefore reducing public and governmental scrutiny; and
- (e) Offer the senior officer who had balked at signing the Form 10-Q the position of CFO of a part of the company that was to be spun off from HealthSouth and which was believed "clean," that is, which was largely unaffected by the fraudulent entries, and promise the senior officer that they would "not play games anymore," to induce the senior officer to sign the form.

68. On or about August 27, 2002, defendant **RICHARD M. SCRUSHY** announced: (a) that anticipated revenues would be reduced due to the purported effect of a directive known as Transmittal 1753 concerning reimbursement for certain therapies for Medicare patients; (b) that HealthSouth would spin off a portion of the company; and (c) that the aforementioned co-conspirator senior officer would become CFO of the new spin-off company.

69. In 2002, defendant **RICHARD M. SCRUSHY** exercised stock options, sold stock on the open market, and transferred stock to HealthSouth in satisfaction of an executive loan.

70. On or about November 13, 2002, defendant **RICHARD M. SCRUSHY** and other co-conspirators caused a statement falsely certifying that HealthSouth's Form 10-Q for the third quarter of 2002 fairly presented, in all material respects, the financial condition and results of operations of HealthSouth, to be transmitted and delivered from Birmingham, Alabama, to a publishing and filing company, for filing with the SEC in Washington, D.C.

71. In or about the Fall of 2002, defendant **RICHARD M. SCRUSHY** met with two co-conspirator senior officers and discussed that HealthSouth's balance sheet overstated cash by hundreds of millions of dollars.

72. In or about January 2003, defendant **RICHARD M. SCRUSHY** asked a co-conspirator how long it would take to fix the cash on the balance sheet.

73. In or about March 2003, when an investment bank proposed a leveraged buy-out (LBO) plan that included using approximately \$249.6 million in cash that appeared on HealthSouth's books and records to help finance the LBO, defendant **RICHARD M. SCRUSHY** ordered a co-conspirator to request that company to propose a plan that did not include the use of such cash.

74. In or about early 2003, defendant **RICHARD M. SCRUSHY** offered to "take care of" a co-conspirator's family if he would take the blame for the overstatements.

75. On or about the morning of March 17, 2003, defendant **RICHARD M. SCRUSHY** made statements to a co-conspirator senior officer, who was then cooperating with the government, that a federal investigation of insider trading did not include an investigation of the accounting fraud.

76. During a series of meetings and telephone conversations on or about March 17 and 18, 2003, between defendant **RICHARD M. SCRUSHY** and the above-referenced senior officer, defendant **SCRUSHY** attempted to persuade the senior officer to continue the scheme, not reveal it to others, and to sign an amended Form 10-Q.

77. On or about the dates set forth below, in response to an e-mail received at HealthSouth as described below from the person described below, HealthSouth sent and caused to be sent to that person false financial information, each sending being a separate overt act:

| <u>Date</u>            | <u>Requesting E-mail</u>  |
|------------------------|---|
| (a) September 10, 2002 | An e-mail from a person with the initials JB, in Carlsbad, California, to HealthSouth headquarters in the Northern District of Alabama, requesting that HealthSouth send him HealthSouth's annual report and Form 10-K; |

- (b) October 2, 2002      An e-mail from a person with the initials RC, in Tallahassee, Florida, to HealthSouth headquarters in the Northern District of Alabama, requesting that HealthSouth send him a Form 10-K and annual report;
- (c) November 19, 2002      An e-mail from a person with the initials MS, in New York, New York, to HealthSouth headquarters in the Northern District of Alabama, requesting that HealthSouth send him a proxy statement, Form 10-K, Form 10-Q, annual reports, and press releases; and
- (d) January 3, 2003      An e-mail from a person with the initials MK, in Marietta, Georgia, to HealthSouth headquarters in the Northern District of Alabama, requesting that HealthSouth send him a Form 10-K, Form 10-Q, annual report, and proxy.

78. The Grand Jury incorporates herein by reference the allegations as set forth in Counts 2 through 50 as overt acts committed by defendant **RICHARD M. SCRUSHY** and other co-conspirators in furtherance of this conspiracy.

All in violation of Title 18, United States Code, Section 371.

**COUNT 2**  
**Securities Fraud**  
**Title 18, United States Code, Sections 1348(1) and 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 of this Indictment as though fully set out herein.
2. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 23 through 38 of Count 1 of this Indictment as describing the scheme and artifice to defraud stockholders, bondholders, potential stockholders and bondholders, bond underwriters, HealthSouth, and others in connection with securities of HealthSouth, an issuer with a class of securities registered under Section 12 of the Securities Exchange Act of 1934 ("Act") that was required to file reports under Section 15(d) of said Act.

3. From in or about 1996, the exact date being unknown to the Grand Jury, to on or about March 19, 2003, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**

and others known and unknown to the Grand Jury, knowingly executed and attempted to execute the above-described scheme and artifice.

4. On or about August 14, 2002, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant **RICHARD M. SCRUSHY**, and others, for the purpose of executing and attempting to execute the above-described scheme and artifice to defraud, filed and caused to be filed with the SEC a Form 10-Q and other documents for the three-month and six-month periods ending June 30, 2002, which contained HealthSouth's fraudulently inflated financial statements.

All in violation of Title 18, United States Code, Sections 1348(1) and 2.

**COUNT 3**

**Securities Fraud**

**Title 15, United States Code, Sections 78j(b) and 78ff;**  
**Title 17, Code of Federal Regulations, Section 240.10b-5;**  
**Title 18, United States Code, Section 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 of this Indictment as though fully set out herein.

2. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 23 through 38 of Count 1 of this Indictment as describing the manipulative and deceptive devices and contrivances used and employed by defendant **RICHARD M. SCRUSHY** and others in contravention of Title 17, Code of Federal Regulations, Section 240.10b-5.

3. From in or about 1996, the exact date being unknown to the Grand Jury, to on or about March 19, 2003, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**

and others known and unknown to the Grand Jury, wilfully, directly and indirectly, by use of the means and instrumentalities of interstate commerce, the mails, and the facilities of national securities exchanges, did use and employ manipulative and deceptive devices and contrivances, by: (a) employing devices, schemes, and artifices to defraud; (b) making and causing HealthSouth to make untrue statements of material facts and omitting to state and causing HealthSouth to omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices and courses of business that operated and would operate as a fraud and deceit upon purchasers and sellers of HealthSouth securities; to wit, defendant SCRUSHY and others caused the dissemination of false financial information into the marketplace in a HealthSouth Form 10-K filed on or about March 27, 2002, with the SEC that materially overstated the operating results and financial condition of HealthSouth by inflating net income and the value of assets at the end of the reporting period, in connection with the sale by defendant SCRUSHY of 5,275,360 shares of HealthSouth common stock for total proceeds of approximately \$74,118,808.00 on May 14, 2002.

All in violation of Title 15, United States Code, Sections 78j(b) and 78ff; Title 17, Code of Federal Regulations, Section 240.10b-5; and Title 18, United States Code, Section 2.

**COUNTS 4 - 21**

**Wire Fraud**

**Title 18, United States Code, Sections 1343, 1346 and 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 of this Indictment as though fully set out herein.

**The Scheme to Defraud**

2. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 23 through 38 of Count 1 of this Indictment as describing a scheme and artifice to defraud stockholders, bondholders, potential stockholders and bondholders, bond underwriters, HealthSouth, and others and to obtain money and property by means of materially false and fraudulent pretenses, representations and promises.

3. From in or about 1996, the exact date being unknown to the Grand Jury, to on or about March 19, 2003, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**

and others known and unknown to the Grand Jury, devised and intended to devise the above-described scheme and artifice.

**Execution of the Scheme**

4. On or about the dates set forth below for each of Counts 4 through 21, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant **RICHARD M. SCRUSHY**, aided and abetted by others, knowingly and willfully, for the purpose of executing the above-described scheme and artifice, transmitted and caused to be transmitted by means of wire communications in interstate commerce writings, signs, signals, pictures and sounds, as described for each of said counts.

5. The allegations of paragraphs 1 though 4 above are re-alleged for each of Counts 4 through 21 below as through fully set out therein.

| Count | Date           | Transmission  |
|-------|----------------|---|
| 4     | April 27, 1999 | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 5     | August 3, 1999 | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 6     | April 25, 2000 | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 7     | July 18, 2000  | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |

|    |                    |   |
|----|--------------------|---|
| 8  | October 31, 2000   | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 9  | March 6, 2001      | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 10 | April 26, 2001     | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 11 | July 31, 2001      | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 12 | October 25, 2001   | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 13 | March 12, 2002     | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 14 | May 2, 2002        | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 15 | August 7, 2002     | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 16 | August 7, 2002     | The transmission of an August 7, 2002 press release from Birmingham, Alabama, to a computer server in Atlanta, Georgia, for posting to internet web site <a href="http://www.healthsouth.com">www.healthsouth.com</a> .   |
| 17 | September 19, 2002 | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |

|    |                  |   |
|----|------------------|---|
| 18 | October 1, 2002  | A conference call hosted by an individual, New York, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance.                          |
| 19 | November 5, 2002 | A conference call hosted by HealthSouth, in the Northern District of Alabama, for the benefit of stockholders, investors, and other interested persons in Alabama and other states, to discuss HealthSouth's performance. |
| 20 | November 5, 2002 | The transmission of a November 5, 2002 press release from Birmingham, Alabama, to a computer server in Atlanta, Georgia, for posting to internet web site <a href="http://www.healthsouth.com">www.healthsouth.com</a> .  |
| 21 | March 3, 2003    | The transmission of a March 3, 2003 press release from Birmingham, Alabama, to a computer server in Atlanta, Georgia, for posting to internet web site <a href="http://www.healthsouth.com">www.healthsouth.com</a> .     |

All in violation of Title 18, United States Code, Sections 1343, 1346 and 2.

## **COUNTS 22 THROUGH 25**

### **Mail Fraud**

#### **Title 18, United States Code, Sections 1341, 1346 and 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 of this Indictment as though fully set out herein.

### **The Scheme to Defraud**

2. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 23 through 38 of Count 1 of this Indictment as describing a scheme and artifice to defraud stockholders, bondholders, potential stockholders and bondholders, bond underwriters, HealthSouth, and others and to obtain money and property by means of materially false and fraudulent pretenses, representations and promises.

3. From in or about 1996, the exact date being unknown to the Grand Jury, to on or about March 19, 2003, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**



and others known and unknown to the Grand Jury, devised and intended to devise the above-described scheme and artifice.

**Execution of the Scheme**

4. On or about the dates set forth below for each of Counts 22 through 25, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant **RICHARD M. SCRUSHY**, aided and abetted by others, knowingly and willfully, for the purpose of executing the above-described scheme and artifice and attempting to do so, deposited and caused to be deposited the matters and things listed below, to be sent and delivered by the private and commercial interstate carrier listed below for each such Count.

5. The allegations of paragraphs 1 through 4 above are re-alleged for each of Counts 22 through 25 below as though fully set out therein.

| Count | Date           | Material  |
|-------|----------------|---|
| 22    | April 11, 1999 | Approximately 22,000 lbs of annual reports for the year 1998, shipped by Roadway Express, Inc., from the Northern District of Alabama, to Jersey City, New Jersey, for distribution to stockholders.                                    |
| 23    | April 7, 2000  | Approximately 34,346 lbs of annual reports for the year 1999, shipped by Eagle Global Logistics, Inc., formerly known as EagleUSA, from the Northern District of Alabama, to Jersey City, New Jersey, for distribution to stockholders. |
| 24    | April 10, 2001 | Approximately 15,750 lbs of annual reports for the year 2000, shipped by Eagle Global Logistics, Inc., formerly known as EagleUSA, from the Northern District of Alabama, to Jersey City, New Jersey, for distribution to stockholders. |
| 25    | April 5, 2002  | Approximately 27,500 lbs of annual reports for the year 2001, shipped by Wright Transportation, Inc., from the Northern District of Alabama, to Edgewood, New York, for distribution to stockholders.                                   |

All in violation of Title 18, United States Code, Sections 1341, 1346 and 2.

**COUNTS 26 THROUGH 41**  
**Mail Fraud**  
**Title 18, United States Code, Sections 1341, 1346 and 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 of this Indictment as though fully set out herein.

**The Scheme to Defraud**

2. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 23 through 38 of Count 1 of this Indictment as describing a scheme and artifice to defraud stockholders, bondholders, potential stockholders and bondholders, bond underwriters, HealthSouth, and others and to obtain money and property by means of materially false and fraudulent pretenses, representations and promises.

3. From in or about 1996, the exact date being unknown to the Grand Jury, to on or about March 19, 2003, in Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**

and others known and unknown to the Grand Jury, devised and intended to devise the above-described scheme and artifice.

**Execution of the Scheme**

4. On or about April 12, 2002, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant **RICHARD M. SCRUSHY**, aided and abetted by others, knowingly and willfully, for the purpose of executing the above-described scheme and artifice and attempting to do so, caused a proxy card, a notice of stockholders meeting, an annual report, and the Form 10-K for the year 2001 to be delivered by mail according to the directions thereon to the person described below for each of said counts, each delivery being within the Northern District of Alabama.

5. The allegations of paragraphs 1 though 4 above are re-alleged for each of Counts 26 through 41 below as though fully set out therein.

| Count | Person  |
|-------|---|
| 26    | A person with the initials WDH, who lived in Birmingham, Alabama    |
| 27    | A person with the initials MAD, who lived in Shelby County, Alabama |
| 28    | A person with the initials LDH, who lived in Shelby County, Alabama |
| 29    | A person with the initials JGH, who lived in Ashville, Alabama      |
| 30    | A person with the initials ARB, who lived in Birmingham, Alabama    |
| 31    | A person with the initials GHT, who lived in Birmingham, Alabama    |
| 32    | A person with the initials SLP, who lived in Birmingham, Alabama    |
| 33    | A person with the initials DRP, who lived in Birmingham, Alabama    |
| 34    | A person with the initials TRB, who lived in Bessemer, Alabama      |
| 35    | A person with the initials NAH, who lived in Sterrett, Alabama      |
| 36    | A person with the initials CFH, who lived in Trinity, Alabama       |
| 37    | A person with the initials MGH, who lived in Birmingham, Alabama    |
| 38    | A person with the initials CRK, who lived in Birmingham, Alabama    |
| 39    | A person with the initials OEV, who lived in Birmingham, Alabama    |
| 40    | A person with the initials MPM, who lived in Birmingham, Alabama    |
| 41    | A person with the initials ALT, who lived in Birmingham, Alabama    |

All in violation of Title 18, United States Code, Sections 1341, 1346 and 2.

**COUNTS 42 through 47**

**False Statements**

**Title 18, United States Code, Sections 1001 and 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 this Indictment as though fully set out herein.
2. On or about the dates set forth below for each of Counts 42 through 47, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**

knowingly and willfully caused a materially false, fictitious and fraudulent statement and representation to be made in a matter within the jurisdiction of the executive branch of the government of the United States, that is, the amounts reported for net income for certain periods of time and the value of assets at the end of those periods, in documents filed with the SEC and incorporated statements and representations as described below for each of Counts 42 through 47, in connection with the registration of HealthSouth bonds, were materially overstated as defendant **RICHARD M. SCRUSHY** then and there well knew and believed.

3. The allegations of paragraphs 1 and 2 above are re-alleged for each of Counts 42 through 47 as though fully set out therein:

| Count | Date              | Report   |
|-------|-------------------|--|
| 42    | November 9, 2000  | HealthSouth's Form S-4, filed to register bonds with a face value of approximately \$350 million           |
| 43    | December 15, 2000 | HealthSouth's amended Form S-4, filed in connection with the registration of the bonds on November 9, 2000 |
| 44    | March 30, 2001    | HealthSouth's Form S-4, filed to register bonds with a face value of approximately \$375 million.          |
| 45    | November 19, 2001 | HealthSouth's Form S-4, filed to register bonds with a face value of approximately \$600 million           |
| 46    | June 28, 2002     | HealthSouth's Form S-4, filed to register bonds with a face value of approximately \$1 billion             |
| 47    | August 22, 2002   | HealthSouth's amended Form S-4, filed in connection with the registration of the bonds on June 28, 2002    |

All in violation of Title 18, United States Code, Sections 1001 and 2.

**COUNT 48**  
**False Certification**  
**Title 18, United States Code, Sections 1350(c)(2) and 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 of this Indictment as though fully set out herein.

2. On or about August 14, 2002, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**

did willfully certify and cause to be certified a statement required by Title 18, United States Code, Section 1350, to be filed with the SEC, that is,

a statement certifying that the periodic report accompanying the statement, namely, a HealthSouth Form 10-Q (1) fully complied with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) that the information contained therein fairly presented, in all material respects, the financial condition and results of operations of the company,

while knowing that the periodic report so filed did not comport with all of the requirements of Title 18, United States Code, Section 1350, in that as defendant SCRUSHY then and there well knew and believed, the information therein did not fairly present, in all material respects, the financial condition and results of operations of HealthSouth because said information materially overstated HealthSouth's net income for each of the periods set forth in the report, and materially overstated the value of HealthSouth's assets at the end of each of said periods.

All in violation of Title 18, United States Code, Sections 1350(c)(2) and 2.

**COUNT 49**

**False Certification**

**Title 18, United States Code, Sections 1350(c)(2) and 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 of this Indictment as though fully set out herein.

2. On or about November 14, 2002, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**

did cause HealthSouth's chief executive officer and HealthSouth's chief financial officer to willfully certify a statement required by Title 18, United States Code, Section 1350, to be filed with the SEC, that is,

a statement certifying that the periodic report accompanying the statement, namely, a HealthSouth Form 10-Q (1) fully complied with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) that the information contained therein fairly presented, in all material respects, the financial condition and results of operations of the company,

while knowing that the periodic report so filed did not comport with all of the requirements of Title 18, United States Code, Section 1350, in that as defendant SCRUSHY and said officers then and there well knew and believed, the information therein did not fairly present, in all material respects, the financial condition and results of operations of HealthSouth because said information materially overstated HealthSouth's net income for each of the periods set forth in the report, except for the third quarter of 2002, and materially overstated the value of HealthSouth's assets at the end of each of said periods.

All in violation of Title 18, United States Code, Sections 1350(c)(2) and 2.

**COUNT 50**

**False Certification, Attempt**

**Title 18, United States Code, Sections, 1350, 1349, and 2**

1. The Grand Jury repeats and re-alleges the allegations contained in paragraphs 1 through 20 of Count 1 of this Indictment as though fully set out herein.

2. On or about March 18, 2003, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY,**

attempted to cause HealthSouth's chief financial officer to willfully certify a statement required by Title 18, United States Code, Section 1350, to be filed with the SEC, that is,

a statement certifying that the periodic report accompanying the statement, namely, a HealthSouth Amended Form 10-Q (1) fully complied with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) that the information contained therein fairly presented, in all material respects, the financial condition and results of operations of the company,

while knowing that the periodic report so filed would not comport with all of the requirements of Title 18, United States Code, Section 1350, in that as defendant **SCRUSHY** and said officer then and there well knew and believed, the information therein did not fairly present, in all material respects, the financial condition and results of operations of HealthSouth, in that said information materially overstated HealthSouth's net income for each of the periods set forth in the report, except for the third quarter of 2002, and materially overstated the value of HealthSouth's assets at the end of each of said periods.

All in violation of Title 18, United States Code, Sections 1350(c)(2), 1349 and 2.

**COUNT 51-70**  
**Money Laundering**  
**Title 18, United States Code, Sections 1957 and 2**

1. On or about the dates set forth below, within Jefferson County in the Northern District of Alabama, and elsewhere, defendant

**RICHARD M. SCRUSHY**

did knowingly engage in a monetary transaction by, through, and to a financial institution, affecting interstate and foreign commerce, in criminally derived property of a value greater than \$10,000.00, that is, the transfer of funds by wire and monetary instrument as listed below in the amounts listed below, such property having been derived from specified unlawful activity, that is, a scheme and artifice to defraud stockholders, bondholders, potential stockholders and bondholders, bond underwriters, HealthSouth, and others, in violation of Title 18, United States Code, Sections 371, 1341, and 1343, and Title 15, United States Code, Sections 78j(b) and 78ff, as alleged in Counts 1 and 3 through 41 of this Indictment.

2. The allegations set out in paragraph 1 above are re-alleged and incorporated in each Count as though fully set out therein:

| Count | Date              | Amount       | Method of Transfer                        | Purpose   |
|-------|-------------------|--------------|---|---|
| 51    | February 1, 2000  | \$90,000.00  | Cashier's Check<br>(1 <sup>st</sup> of 4) | Purchase of 360 acres of real property in Wilcox County, AL   |
| 52    | February 1, 2000  | \$90,000.00  | Cashier's Check<br>(2 <sup>nd</sup> of 4) | Purchase of 360 acres of real property in Wilcox County, AL   |
| 53    | February 1, 2000  | \$90,000.00  | Cashier's Check<br>(3 <sup>rd</sup> of 4) | Purchase of 360 acres of real property in Wilcox County, AL   |
| 54    | February 1, 2000  | \$90,000.00  | Cashier's Check<br>(4 <sup>th</sup> of 4) | Purchase of 360 acres of real property in Wilcox County, AL   |
| 55    | March 30, 2000    | \$290,808.00 | Wire Transfer                             | Purchase of 2002 Skater 40-foot racing boat "Monopoly"  |
| 56    | February 7, 2000  | \$30,775.00  | Check                                     | Design and art work on 2002 Skater 40-foot racing boat "Monopoly"   |
| 57    | August 29, 2000   | \$79,000.00  | Wire Transfer                             | Purchase of 2000 GMC Yukon and 2000 GMC Denali  |
| 58    | September 8, 2000 | \$45,000.00  | Wire Transfer                             | Purchase of armoring package for 2000 GMC Yukon   |
| 59    | November 22, 2000 | \$45,000.00  | Wire Transfer                             | Purchase of armoring package for 2000 GMC Denali  |
| 60    | October 30, 2000  | \$302,950.75 | Wire Transfer                             | Purchase of four (4) bronze statutes and seven (7) classic automobiles, including a 1929 Cadillac Dual Cowl Phaeton |
| 61    | January 9, 2001   | \$329,062.53 | Check                                     | Purchase of 2000 Rolls-Royce Corniche   |
| 62    | February 16, 2001 | \$340,000.00 | Check                                     | Purchase of four (4) paintings, including works by Picasso, Renoir, Miro, and Wilson                                |



|    |                   |                |               |  |
|----|-------------------|----------------|---------------|--|
| 63 | November 15, 2001 | \$120,300.00   | Check         | Purchase of four (4) antique Persian-style rugs  |
| 64 | January 7, 2002   | \$108,087.00   | Check         | Purchase of two (2) 2002 Cadillac Escalades  |
| 65 | May 1, 2002       | \$214,223.00   | Wire Transfer | Purchase of 2002 38-foot Intrepid Walkaround boat                                      |
| 66 | June 28, 2002     | \$266,323.00   | Wire Transfer | Purchase of 2003 42-foot Lightning boat, with motor and trailer                        |
| 67 | October 28, 2002  | \$2,811,524.48 | Wire Transfer | Purchase of thirty (30) acres of real property in Gulf Shores, AL                      |
| 68 | December 27, 2002 | \$370,000.00   | Check         | Purchase of 21.81 carat emerald-cut diamond platinum ring                              |
| 69 | January 27, 2003  | \$400,000.00   | Check         | Purchase of seven (7) paintings, including works by Picasso, Chagall, Miro, and Wilson |
| 70 | July 29, 2003     | \$3,225,000.00 | Wire Transfer | Purchase of 2001 Cessna Citation 525 aircraft  |

All in violation of Title 18, United States Code, Sections 1957 and 2.

**COUNT 71**

**Criminal Forfeiture**

**Title 18, United States Code, Section 981(a)(1)(C)**  
**and Title 28, United States Code, Section 2461(c)**

1. Counts 1 and 3 through 41 of this Indictment are incorporated by reference herein for the purpose of alleging forfeiture pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United State Code, Section 2461(c).

**Forfeiture**

2. As a result of the foregoing offenses alleged in Counts 1 and 3 through 41 of this Indictment, defendant

**RICHARD M. SCRUSHY**

shall forfeit to the United States any property, real or personal, which constitutes or is derived from proceeds traceable to said offenses. Such forfeitable interests include, but are not limited to the aggregate sum of \$278,727,674.35 and all interest and proceeds derived therefrom, including but not limited to:

- a. Residence and compound located at 2406 Longleaf Street, Birmingham, Alabama 35243, including adjoining real properties located at 2410 Longleaf Street, 2320 Longleaf Way, and 2300 Marin Drive, Birmingham, Alabama, together with all improvements, fixtures, and appurtenances thereon;
- b. Residence and real property located at 1470 Willows End, Alexander City, Alabama 35010, more particularly described as Lots 19, 20, and 21, Willow Point Phase XII, Tallapoosa County, Alabama;
- c. Residence and real property located at 30524 River Road, Orange Beach, Alabama 36561, more particularly described as Lot 101, Unit 1, Ono Island Subdivision, Baldwin County, Alabama, together with all improvements, fixtures, and appurtenances thereon;
- d. Residence and real property located at 1000 N. Lake Way, Palm Beach, Palm Beach County, Florida 33480, together with all improvements, fixtures, and appurtenances thereon;
- e. One (1) 1992 92-foot Tarrab yacht, "Chez Soiree," Hull No. XED09219D102;
- f. One (1) 1998 Cessna Caravan 675 aircraft, FAA Reg. No. N208MM, together with amphibious floats, and other equipment;
- g. Certain real property and commercial building located at 415 Fifth Street, West Palm Beach, Florida 33401, together with all improvements, fixtures, and appurtenances thereon;
- h. Four items of diamond jewelry:
  - (i) One (1) diamond bracelet, with 30 emerald-cut stones (totaling 48.71 carats);
  - (ii) One (1) fancy yellow radian-cut diamond ring (9.69 carats), with two (2) white trillions (1.40 carats);

- (iii) One pair of round-cut diamond stud earrings (6.08 carats);  
and
- (iv) One (1) fancy yellow diamond bracelet with 48 diamonds  
(14.06 carats);
- i. Certain real property known as the "Bissell property," located on  
Highway 180, Gulf Shores, Baldwin County, Alabama;
- j. Certain real property known as Walker Marina, Orange Beach,  
Baldwin County, Alabama 36561, together with all  
improvements, fixtures, and appurtenances thereon; and
- k. One (1) 2003 Lamborghini Murcielago, VIN  
ZA9BC10U33LA12454.

3. If any of the property described above as being subject to forfeiture pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), as a result of any act or omission of the defendant **RICHARD M. SCRUSHY**

- (1) cannot be located upon the exercise of due diligence;
- (2) has been transferred or sold to, or deposited with, a third person;
- (3) has been placed beyond the jurisdiction of the Court;
- (4) has been substantially diminished in value; or
- (5) has been commingled with other property that cannot be subdivided without  
difficulty;

it is the intent of the United States, pursuant to Title 21, United States Code, Section 853(p), to seek forfeiture of any other property of said defendant **RICHARD M. SCRUSHY** up to the value of the above forfeitable property.

All pursuant to Title 18, United States Code, Section 981 and Title 28, United States Code, Section 2461.

**COUNTS 72-85**  
**Criminal Forfeiture**  
**Title 18, United States Code, Section 982(a)(1)**

1. Counts 1 and 3 through 41 of this Indictment are incorporated by reference herein for the purpose of alleging forfeiture pursuant to Title 18, United States Code, Section 982(a)(1).

**Forfeiture**

2. As a result of the foregoing offenses alleged in Counts 51 through 70 of this Indictment, as identified below, defendant

**RICHARD M. SCRUSHY**

shall forfeit to the United States any property, real and personal, involved in such offenses, or any property traceable to such property; to-wit:

| Count | Property Involved in Offense, or Traceable to Offense  | Offense Count  |
|-------|--|----------------|
| 72    | 360 acres of real property located near Highway 21, Wilcox County, Alabama (known as "Marin Plantation"), together with all fixtures, improvements, and appurtenances thereon  | 51, 52, 53, 54 |
| 73    | One (1) 2002 Skater 40-foot racing boat, "Monopoly," Hull No. DUX00665C004042, Alabama Decal No. AL2185SP  | 55, 56         |
| 74    | (a) One (1) 2000 GMC Yukon, VIN 3GKGK26U0YG219700, Alabama license number 1C5968M<br>(b) One (1) 2000 GMC Denali, VIN 1GKEK63R6YR216069, Alabama license number 1B5906W  | 57, 58, 59     |
| 75    | One (1) 1929 Cadillac Dual Cowl Phaeton, VIN 334647  | 60             |
| 76    | One (1) 2000 Rolls-Royce Corniche, VIN SCAZK29E3YCX68035   | 61             |
| 77    | Four Paintings:<br>(a) <i>Profil de Femme</i> , by Pablo Picasso<br>(b) <i>Enfants Jouant a la Balle</i> , by Pierre-August Renoir<br>(c) <i>Le Visage S'invente</i> , by Joan Miro<br>(d) <i>Carrie's and Don's Uncle Ezra's Birthday Dinner</i> , by Donald Roller Wilson. | 62             |

|    |   |    |
|----|---|----|
| 78 | (a) One (1) antique rug from Persia<br>(b) One (1) antique rug from India<br>(c) One (1) antique rug from Turkey<br>(d) One rug from Egypt.   | 63 |
| 79 | (a) One (1) 2002 Cadillac Escalade, VIN GYEK63N52R143755<br>(b) One (1) 2002 Cadillac Escalade, VIN YEK63NX2G225769   | 64 |
| 80 | One (1) 2002 38-foot Intrepid Walkaround water craft, Hull No. 1BW37075B202, Alabama Decal No. 1389AV   | 65 |
| 81 | One (1) 2003 42-foot Lightning boat, Hull No. FGQ42518DD203, with 2003 Mercruiser motor, Serial No. 0M053088, and 2001 Vanguard trailer, Serial No. 45JC2H93311000879   | 66 |
| 82 | Thirty (30) acres of real property located along Highway 182 (also known as Perdido Beach Boulevard), Gulf Shores, Baldwin County, Alabama  | 67 |
| 83 | One (1) 21.81 carat emerald-cut diamond platinum ring   | 68 |
| 84 | Seven Paintings:<br>(a) <i>Tete de Femme I</i> , by Pablo Picasso<br>(b) <i>L'echelle au Ciel</i> , by Marc Chagall<br>(c) <i>Grande Corniche</i> , by Marc Chagall<br>(d) <i>Neat Piet</i> , by Patrick Hughes<br>(e) <i>L'ogre Enjou</i> , by Joan Miro<br>(f) <i>L'oiseau Mongol</i> , by Joan Miro<br>(g) <i>Cookie...She Had Seen It</i> , by Donald Roller Wilson | 69 |
| 85 | One (1) 2001 Cessna Citation 525 aircraft, FAA Reg. No. N525BR or N525WS, together with two (2) Williams FJ441A engines, bearing serial numbers 1901 and 1902, respectively   | 70 |

If any of the property described above in Counts 72-85 as being subject to forfeiture pursuant to Title 18, United States Code, Section 982, as a result of any act or omission of the defendant, **RICHARD M. SCRUSHY**,

- (1) cannot be located upon the exercise of due diligence;
- (2) has been transferred or sold to, or deposited with, a third person;
- (3) has been placed beyond the jurisdiction of the Court;
- (4) has been substantially diminished in value; or
- (5) has been commingled with other property that cannot be subdivided without difficulty;

it is the intent of the United States, pursuant to Title 18, United States Code, Section 982(b)(1),  
to seek forfeiture of any other property of said defendant

**RICHARD M. SCRUSHY**

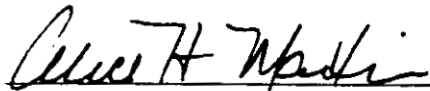
up to the value of the above forfeitable property.

All pursuant to Title 18, United States Code, Section 982.

A TRUE BILL.

[REDACTED]

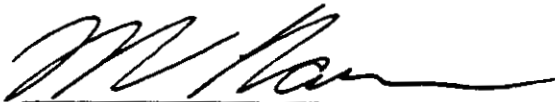
Foreperson



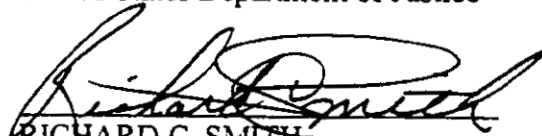
ALICE H. MARTIN  
United States Attorney  
Northern District of Alabama



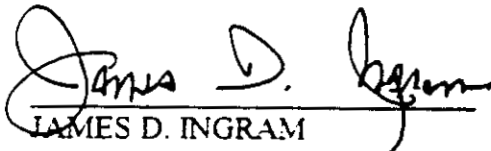
JOSHUA R. HOCHBERG  
Chief, Fraud Section  
Criminal Division  
United States Department of Justice



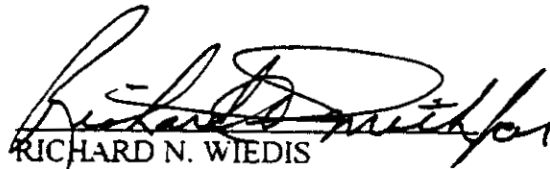
MICHAEL V. RASMUSSEN  
Assistant United States Attorney  
Northern District of Alabama



RICHARD C. SMITH  
Deputy Chief, Fraud Section  
Criminal Division  
United States Department of Justice



JAMES D. INGRAM  
Assistant United States Attorney  
Northern District of Alabama



RICHARD N. WIEDIS  
Senior Trial Attorney, Fraud Section  
Criminal Division  
United States Department of Justice